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Lucia A Keegan 10/03/2006 09:45:24 AM From DB/Inbox: Lucia A Keegan

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SUBJECT: FRANCE: ENERGY SECTOR UPDATE

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11. (U) This is another in a series of occasional updates on the French energy sector. Feedback is welcome to help us make this product as useful as possible for our inter-agency USG audience.

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12. (U) French Prime Minister Dominique de Villepin on September 22 called for an energy summit bringing together European Union countries and the main neighboring oil and gas-producing countries. De Villepin announced that the summit should take place early next year and include major energy producers Russia, Algeria, Norway and countries such as Kazakhstan and Azerbaijan. "At a time when energy occupies an increasingly important role in our exchanges with these countries, it is time for us to conclude agreements which specifically deal with this issue," he explained. He further proposed that a new post of "special representative for energy" be

set up at the European level. He suggested that such a representative would work closely with the EU's foreign policy chief Javier Solana. "We would carry more weight in negotiations with the producers by being able to speak with one voice," de Villepin noted.

13. (SBU) EU energy supplies were at the forefront of the September 23 summit near Paris between the leaders of France, Germany and Russia. The French press said that the talks stressed the EU's eagerness to avoid a repeat of January's gas crisis, when Gazprom switched off its gas taps to Ukraine and impacted gas supplies in western Europe. French papers further noted Russia's apparent drive to assert control over the country's vast energy reserves and muscle out foreign energy majors in favor of state-backed Russian ones. Earlier, they had given prominent coverage to Russia's alleged threat to revoke a license for French group Total to develop the Kharyaga oil field, accusing it of excessive delays. Contacts told us Putin reportedly said that Russia was a law abiding country that would honor its commitments so long as firms investing in Russia followed Russian law and their Production Sharing Agreements. The Franco-Russian cooperation deals clinched during the summit that were worth more than 10 billion dollars were not in the energy sector, but rather in transportation and aviation.

14. (U) French Finance, Economy and Industry Minister Thierry Breton revealed on September 24 his intention to launch biofuel "green pumps" serving bioethanol, which will offer motorists "a green fuel that costs much less." The announcement follows an earlier series of proposals by the European Commission to encourage a switch to green fuels.

15. (U) The GOF energy draft bill presented to the National Assembly on September 7 would fully liberalize the French electricity and gas markets on July 1 2007, as required by two 2003 EU directives. At the same time, the bill would expedite the further privatization of gas utility Gaz de France (GDF) prior to its 70.8 billion euro merger with Suez, the second largest electricity generator in France. Parliamentary debate is taking place under a fast-track procedure, which requires only one reading by both houses, followed by re-conciliation procedures to agree on a final text to be voted on by both houses. The National Assembly is expected to vote on the bill on October 3.

16. (SBU) On September 27, the National Assembly approved the controversial Article 10 of the GOF energy draft bill, providing for the further privatization of Gaz de France (GDF). This article enables the GOF to reduce its minimal shareholding in GDF from 70 percent to a third, thus paving the way for GDF's merger with Suez. The EU Commission has allowed the French Government to retain a "golden share" protecting GDF's gas distribution network, liquefied natural gas terminals and storage depots from takeovers. Unveiled last February by Prime Minister Dominique de Villepin from his office, with the chairmen of both companies at his side, the deal was brokered to ward off hostile advances from Italian energy group Enel. (Note: AFEP, the French private enterprise business association, told us they found the sight of a French PM announcing the deal in his office "very shocking." End Note).

17. (U) Even though the French administration has championed the merger, several other processes could derail the deal. The Senate must also pass the bill after the National Assembly does so on October 3. The European Commission must clear the merger. The Commission prolonged its review of the merger proposals from the original October 25 deadline to November 17 after concessions the two companies provided in September failed to assuage concerns. Finally, Suez share holders must vote for the privatization. Tensions between France and Italy were eased somewhat when de Villepin and his Italian counterpart Romano Prodi met in Rome earlier this month to boost their two countries' cooperation in the energy sector. The two countries' industry ministers met in Paris on September 28 in a bid to further defuse the situation.

18. (SBU) The original GOF energy draft bill's opening articles gave domestic consumers the right to choose their electricity and gas providers, in line with EU energy directives that come into force on July 1, 2007. The text recently adopted by the National Assembly members (yet to be approved by the Senate), however, agreed to maintain government-regulated gas and electricity tariffs for an

indefinite period beyond 2007. The National Assembly also transformed the role and make-up of the French energy regulatory authority (CREG), which Members criticized as too independent and too market-oriented. Cambridge Energy Research Associations Electricity and Gas Director Jean-Marie Chevalier told us that with elections in the offing Parliamentarians wanted to showing the French people "they are protected" from EU liberalization and market realities.

19. (SBU) Privatization is a sensitive issue for France's national trade union federations, traditionally quite strong in France's energy sector. However, so far, the unions have not succeeded in challenging the GOF's energy draft bill. They oppose both market deregulation and the further privatization of GDF. Organized labor's first attempt to organize strikes and demonstrations on September 12 failed miserably. However, the major trade union federations have announced that they plan to organize further demonstrations on October 3 and 14. According to protest organizers the privatization of GDF may lead to 20,000 lost jobs.

Stapleton